

STATE FINANCE COMMITTEE
OLYMPIA, WASHINGTON

March 16, 2000

The State Finance committee met in special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Brad Owen, Lieutenant Governor

Also Present: Jeanne Cushman, Office of Attorney General
Darlene DeRose, Montague DeRose & Associates
Nancy Adams, Office of the State Treasurer
Dean Torkelson, Seattle Northwest Securities
Dan Gottlieb, Gottlieb Fisher & Andrews
Bill Tonkin, Foster Pepper & Shefelman
Allan J. Martin, Office of the State Treasurer
Mike Clarey, Office of the State Treasurer
Gretchen Gale, Office of the State Treasurer
Martin Reynoso, Office of the State Treasurer
Susan Musselman, Susan D. Mus selman Inc.
Susan Melvin, Office of the State Treasurer
Svein Braseth, Office of the State Treasurer
Dick Saunders, Public Stadium Authority
Ann Kawasaki, Public Stadium Authority
Lorraine Hine, Public Stadium Authority
Mike Roberts, Office of Financial Management
Marty Brown, Office of Financial Management
Buster Brown, First & Goal Inc.
Tom Jensen, First & Goal Inc.
Shad Pruitt, Office of the State Treasurer
Sue Martin, Office of the State Treasurer
Vicki Cox, Office of the State Treasurer

Chairman Murphy called the meeting to order.

Lt. Governor Owen moved the minutes for the February 8, 2000, meeting be approved. Chairman Murphy seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin introduced proposed Resolution No. 913 which increases the maximum aggregate dollar amount of certificates of participation (COPs) for financing contracts from \$100 million to \$150 million and approving and authorizing the State Treasurer to execute and deliver conforming amendments to the master financing contract and related documents. The State Finance Committee by Resolution No. 879, adopted on August 17, 1998, approved the form of a

Master Financing Contract, effective September 1, 1998 (the “Master Financing Contract”), and authorized the State Treasurer or his designated representative to enter into that Master Financing Contract for the lease and acquisition of certain real and personal property for state agencies and local agencies. Resolution No. 879 of the State Finance Committee authorized and approved the issuance and sale of up to \$100 million of state of Washington certificates of participation (“Certificates”) under the Master Financing Contract and provided that the aggregate dollar amount of such Certificates outstanding may not at any time exceed \$100,000,000. The aggregate dollar amount of Certificates outstanding under the Master Financing Contract as of February 1, 2000, was \$85,033,966, and the remaining capacity for issuance of Certificates pursuant to Resolution No. 879 of the State Finance Committee and the Master Financing Contract was \$14,966,034.

Mr. Martin said the aggregate principal amount of financing contracts authorized by the Legislature for certain state agencies in the remainder of the current biennium is approximately \$50 million, and it is expected there will be a need to issue additional Certificates under the Master Financing Contract reflecting the principal amount of those authorized state agency financing contracts as well as Certificates reflecting local agency financing contracts. The aggregate dollar amount of Certificates outstanding may not at any time exceed \$150 million. Financing contracts authorized by the state Legislature may require dollar amount increases of the Master Financing Contract by the State Finance Committee in the future.

Mr. Martin presented proposed Resolution No. 913 to the committee.

Resolution No. 913 relating to the Office of the State Treasurer’s consolidated program for issuance of certificates of participation in financing contracts pursuant to chapter 39.94 RCW and Resolution No. 879 of the State Finance Committee; amending section 6 of Resolution No. 879 to increase the maximum aggregate dollar amount of certificates of participation permitted to be outstanding under that program from \$100,000,000 to \$150,000,000; and approving and authorizing the State Treasurer to execute and deliver conforming amendments to the master financing contract and related documents.

Lt. Governor Owen moved to adopt Resolution No. 913. Chairman Murphy seconded the motion and the resolution was adopted.

Mr. Martin said the Washington Finance Officers Association’s Board would meet on April 11, 2000 and that a representative from the Office of the State Treasurer would be there. Chairman Murphy mentioned that this increase would include some buildings and expansions in the near future.

Chairman Murphy explained that item two on the agenda was an authorizing motion to adopt administrative rules for the School Bond Guarantee Program and to enter them into the rule-making process for the Washington Administrative Code (WAC).

Mr. Martin said the purpose of the School Bond Guarantee Program is to provide savings to the taxpayers of the State of Washington. Under the program, the state is authorized to pledge

its full faith and credit in support of voted general obligation bonds issued by a school district. Currently, nearly 80% of school districts in the State of Washington purchase bond insurance to credit-enhance their debt issuance. The state guarantee can be used in lieu of bond insurance, resulting in savings to the school district roughly equal to the cost of the insurance. Programs of this type have been highly successful nationally. Including the State of Washington, 24 states currently provide various types of bond guarantee programs for school district debt.

Mr. Martin said the proposed administrative rules have been reviewed by an Advisory Committee convened by the State Treasurer. The Advisory Committee includes local elected officials, statewide school district representatives, lawyers, assistant attorney general, financial advisors and staff members from the Office of the State Treasurer (OST) and Office of the Superintendent of Public Instruction (OSPI). The rules are subject to review of the bond rating agencies. The public hearing and adoption dates for the proposed rules is expected to be May 9, 2000. He said that Ms. DeRose (financial advisor) will contact the rating agencies. Ms. Cushman, Assistant Attorney General, and Ms. Gale, OST Legal Counsel, worked on the Advisory Committee. Chairman Murphy said that a number of school districts had successful bond levy elections this past fall, and that this motion gives OST the authority to include those districts in the program.

Lt. Governor Owen made a motion that the State Finance Committee hereby adopt the draft administrative rules as the School Bond Guarantee Program Guidelines and authorize the secretary of the State Finance Committee, through the Office of the State Treasurer, to enter them into the rule-making process for the Washington Administrative Code. Chairman Murphy seconded the motion and the motion was adopted.

Mr. Martin introduced proposed Resolution No. 914 which provides for the issuance and sale of up to \$130,452,900 State of Washington General Obligation Bonds, Series 2000S-4, and up to \$70,781,934 State of Washington General Obligation Bonds, Series 2000S-5, but in an aggregate total for both series not to exceed \$200,308,100.90, all for the purpose of providing funds for stadium and exhibition center preconstruction, site acquisition, design, site preparation, construction, owning, leasing and equipping, as authorized by Chapter 220, Laws of 1997 and Chapter 39.42 RCW. The State Finance Committee has received correspondence dated March 9, 2000 from the Public Stadium Authority (PSA) pursuant to Section 106(6) of Chapter 220, Laws of 1997, respectfully requesting General Obligation Bond proceeds for a total amount of \$195,313,000 for continued construction and completion of the Washington State Football/Soccer Stadium and Exhibition Center Project. The PSA included a project spend-down plan of the bond proceeds to comply with Internal Revenue Service arbitrage spend-down rules.

Mr. Martin explained the background, referring to the 1997 Legislature which enacted Chapter 220, Laws of 1997, ("An Act relating to a mechanism for the financing stadium and exhibition centers . . ."), providing for a vote of the people. Referendum No. 48 (Chapter 220's ballot number) was approved by the voters at an election held June 17, 1997. In brief, Referendum 48 authorized a public/private partnership between the state and a professional football team (currently, the Seattle Seahawks) to construct a stadium, exhibition center, and parking facilities. Proceeds from the Series 1999S-1 Bonds and the Series 1999S-2 Bonds

previously sold by the State Finance Committee have been expended on construction of the parking facility and exhibition hall. On November 10, 1999, Lieutenant Brad Owens, the Public Stadium Authority and representatives of First and Goal Inc. and Vulcan Enterprises dedicated the new parking and exhibition hall on behalf of the state. The exhibition facility is currently operational and being utilized for various trade shows, expositions, and entertainment.

Mr. Martin said proceeds from the Series 1999S-3 Bonds previously sold by the State Finance Committee have been placed in escrow with U.S. Bank Trust National Association, as escrow trustee, and invested in tax-exempt, non-AMT bonds (which must be general obligation bonds if issued by non-Washington issuers), rated in one of the 3 highest credit ratings by a national rating agency, all to provide part of the funds necessary to pay those project costs consisting of deferred sales taxes on the stadium and exhibition center project. Demolition preparations have begun to remove the existing domed stadium by implosion on the morning of March 26. The stadium will be imploded in two general phases over 17.8 seconds, making it one of the longest implosions ever. The completed facilities are to be ready for professional football for the 2002 season.

Mr. Martin continued by saying proposed Resolution No. 914 provides for a competitive sale of the Series 2000S-4 bonds and the Series 2000S-5 bonds. The bonds are scheduled to be sold on April 18, 2000, using electronic bidding as well as hand delivered bids. Sale times for the two tranches are 7:30 a.m. and 8:30 a.m., PDT, respectively, followed by a State Finance Committee meeting at 9:00 a.m. to accept the winning bid(s). Closing of the transaction will be May 2, 2000.

Lt. Governor Owen stated that if you add \$130,452,900 and \$70,781,934, it does not add to \$200,308,100.90 and questioned why. Chairman Murphy said they were sizing the issue up to the last minute and still weren't sure what the individual totals would be for the Series 2000S-4 and Series 2000S-5 issues, but the aggregate total would not exceed \$200,308,100.90. He felt it was best to remain flexible or lose an opportunity. Mr. Torkelson concurred that we wouldn't know what the interest rate or cost of the issue would be until it was closer to the sale date. Lt. Governor Owen stated he understood but wanted to express his concern that the total not be exceeded.

Chairman Murphy wanted to discuss the requirement in the statute for a reserve. He asked bond counsel Mr. Gottlieb if the resolution was structured with no requirement and no covenant for a reserve. Mr. Gottlieb said yes. Chairman Murphy said when they were reviewing the documents and the cash flows, when looked at the long-term implications of the statutory scheme, there is a requirement within the statute for the General Obligation bonds to have the next year's debt service in place each year. Now clearly as you're ramping up towards a future debt service need, and I think that bond counsel has advised us that those funds, if we set them aside, would be yield-restrictive.

Mr. Gottlieb stated those funds over and above next year's debt service will be yield restricted, that's correct. Chairman Murphy continued by saying that since the cash flows from general revenues of the state, specific to hotel/motel/lottery/sales tax, exhibition tax and parking tax, are slated to go towards the amortization of this debt, it's important for us to make sure we

have sufficient resources available to us down stream so that we can make the debt service payments. Mr. Gottlieb responded by saying the stadium bond statute is unusual relative to other state General Obligation bonds statutes in two ways that he could identify. The first is the requirement to insure that on June 30 of each year, there is enough money in the stadium and exhibition center account to pay next year's debt service.

Mr. Gottlieb continued by saying the second thing that happens is you have the opportunity to accumulate, what we've been referring to in the working, as a second reserve, over and above that, if necessary.

Mr. Gottlieb stated the third thing is, once you build those two pots, to the extent you need to, everything else flows into the Youth Athletic Facilities grant account and funds the development of youth athletic facilities around the state. Chairman Murphy asked if the question of whether OFM chooses to do a reserve is really outside the scope of our discussion. Mr. Gottlieb answered in the affirmative. Chairman Murphy questioned if OFM does a reserve, if it would be yield restrictive. Mr. Gottlieb responded by saying to the extent that they reserve over and above the amount for next year's debt service, plus subject to tax code, you're allowed an additional amount equal to the greater of investment earnings on last year's debt service amount or an extra month's worth of debt service based on last year's debt service, approximately 13 months. Everything over and above that amount would be required under the tax code to be yield restrictive.

Chairman Murphy clarified, if it was yield-restrictive, we would take cash out of the treasury and move those into a yield-restricted account, say at US Bank, or whatever. Mr. Gottlieb said last year, OST set up two escrow accounts, one for the S-3 bond proceeds and the second for payments currently coming in from the PSA derived from payments they are getting from the team in respect to what's called admissions tax surcharge. It's that second escrow account that probably provides you with sufficient flexibility because it authorizes separate sub-accounting for other yield-restricted monies and the yield restrictions are going to be the same. Mr. Gottlieb stated his sense was that OST may determine merely to have that escrow receive these monies during this timeframe.

Chairman Murphy stated that we need to get together with OFM to work out a good plan. Chairman Murphy continued by stating that we have not limited ourselves within the structure of the bonds. Mr. Gottlieb stated that was correct.

Mr. Martin presented proposed Resolution No. 914 to the committee.

Resolution No. 914 providing for the issuance and sale of up to \$130,452,900 State of Washington General Obligation Bonds, Series 2000S-4, and up to \$70,781,934 State of Washington General Obligation Bonds, Series 2000S-5, but in an aggregate total for both series not to exceed \$200,308,100.90, all for the purpose of providing funds for stadium and exhibition center preconstruction, site acquisition, design, site preparation, construction, owning, leasing and equipping, as authorized by Chapter 220, Laws of 1997 and Chapter 39.42 RCW.

Lt. Governor Owen moved to adopt Resolution No. 914. Chairman Murphy seconded the motion and the resolution was adopted.

Chairman Murphy mentioned the sale of the bonds would be on April 18, 2000 and the proceeds would be delivered on May 2, 2000. Mr. Martin thanked all the individuals involved in preparing for the stadium financing up to date. Chairman Murphy stated he echoed those remarks and commented that there has been numerous meetings on this topic and in the 28 years he has been in this business, this is probably one of the most complicated deals he has ever been involved with, but thinks the resolution is good we're on time with the over-all project and hope that the entire project is done in time for opening exhibition session of 2002. He looks forward with great anticipation to that event.

There being nothing further to come before the committee, the meeting was adjourned at 9:35 a.m.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Gary Locke, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary